

***TOWN OF WENHAM, MASSACHUSETTS***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***FISCAL YEAR ENDED JUNE 30, 2006***

TOWN OF WENHAM, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

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## Independent Auditors' Report

To the Honorable Board of Selectmen  
Town of Wenham, Massachusetts

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wenham, Massachusetts, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Wenham, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wenham, Massachusetts, as of June 30, 2006, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2006, on our consideration of the Town of Wenham, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund and community preservation fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

August 16, 2006

# ***Management's Discussion and Analysis***

# ***Management's Discussion and Analysis***

## ***Overview of the Financial Statements***

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. These basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, human services, culture and recreation, pension benefits, property and liability insurance, employee benefits, interest and state and county charges. The Town's business-type activities related to the water activities.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town adopts an annual appropriated budget for its general fund and community preservation fund. Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

**Proprietary funds.** *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town maintains one proprietary fund to account for its water activities.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for propriety funds. The Town does not report any fiduciary funds.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## Government-wide Financial Analysis

	Governmental Activities	
	FY06	FY05
<b>Assets:</b>		
Current assets.....	\$ 4,896,637	\$ 4,527,271
Noncurrent assets (excluding capital).....	264,384	225,154
Capital assets.....	5,033,374	4,424,427
<b>Total assets.....</b>	<b>10,194,395</b>	<b>9,176,852</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	187,844	300,209
Noncurrent liabilities (excluding debt).....	46,000	125,000
Current debt.....	1,252,000	752,000
Noncurrent debt.....	1,400,000	1,525,000
<b>Total liabilities.....</b>	<b>2,885,844</b>	<b>2,702,209</b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	2,381,374	2,697,427
Restricted.....	1,263,460	841,635
Unrestricted.....	3,663,717	2,935,581
<b>Total net assets.....</b>	<b>7,308,551</b>	<b>6,474,643</b>
<b>Program revenues:</b>		
Charges for services.....	944,215	1,081,976
Operating grants and contributions.....	325,624	451,121
Capital grants and contributions.....	182,507	128,719
<b>General Revenues:</b>		
Real estate and personal property taxes.....	9,062,693	8,771,172
Motor vehicle and other excise taxes.....	616,729	585,069
Community preservation surcharge.....	224,179	-
Nonrestricted grants.....	696,748	434,478
Unrestricted investment income.....	101,286	50,249
Other revenues.....	38,629	34,898
<b>Total revenues.....</b>	<b>12,192,610</b>	<b>11,537,682</b>
<b>Expenses:</b>		
General Government.....	933,544	914,698
Public Safety.....	2,179,073	2,324,768
Education.....	5,813,821	5,438,933
Public Works.....	1,139,354	1,235,721
Human Services.....	105,902	101,100
Culture and Recreation.....	983,997	971,580
Claims and judgments.....	-	310,000
Interest.....	93,375	80,540
State and county charges.....	109,636	82,538
<b>Total expenses.....</b>	<b>11,358,702</b>	<b>11,459,878</b>
<b>Change in net assets.....</b>	<b>\$ 833,908</b>	<b>\$ 77,804</b>



As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$7.3 million at the close of FY2006.

Net assets of \$2.4 million (33%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A restricted portion of the net assets totally \$1.3 million (19%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* totally \$3.7 million (48%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets.

The governmental activities net assets increased by \$826 thousand during the current fiscal year which reflects the Town's objective to maintain its financial position, invest in capital assets and to raise sufficient revenues to cover its current expenses.

**Business-type Activities.** The business type activities net assets increased by \$177 thousand during the current fiscal year. The results reflect the town's intention to recover 100% of its costs of operations through rates.

The following table identifies key elements of the enterprise operations:

	Business Type Activities	
	FY06	FY05
<b>Assets:</b>		
Current assets.....	\$ 300,280	\$ 218,833
Capital assets.....	1,325,616	1,317,000
<b>Total assets.....</b>	<b>1,625,896</b>	<b>1,535,833</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	10,782	29,236
Noncurrent liabilities (excluding debt).....	21,900	16,000
Current debt.....	75,000	75,000
Noncurrent debt.....	1,000,000	1,075,000
<b>Total liabilities.....</b>	<b>1,107,682</b>	<b>1,195,236</b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	250,616	167,000
Unrestricted.....	267,598	173,597
<b>Total net assets.....</b>	<b>518,214</b>	<b>340,597</b>
<b>Program revenues:</b>		
Charges for services.....	551,659	437,066
<b>Expenses:</b>		
Water expenses.....	322,206	313,678
Interest.....	51,836	59,834
<b>Total expenses.....</b>	<b>374,042</b>	<b>373,512</b>
<b>Change in net assets.....</b>	<b>\$ 177,617</b>	<b>\$ 63,554</b>

## ***Financial Analysis of the Government's Funds***

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$2.7 million, a decrease of \$256 thousand from the prior year.

The General Fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$781 thousand, while total fund balance was \$1.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7% of total general fund expenditures, while total fund balance represents 13% of that same amount. The General Fund's results of operation resulted in a \$77 thousand increase in fund balance.

The Town voted to establish a community preservation fund in FY2006 which is funded by a combination of real estate surcharges to tax payers and a matching grant from the Commonwealth. At the end of the year a positive balance of \$220 thousand and a deferred receivable of approximately the same amount from the Commonwealth. As funds accumulate, the Town expects to appropriate funds in accordance with the legislation and the best interest of Wenham.

As more fully described in the notes to the financial statements, the Town is in the process of building a new police station and renovating Town Hall. At June 30<sup>th</sup>, the fund has a temporary deficit of \$180 thousand. This deficit will increase over the next 2 fiscal years until long-term bonds are issued to pay for the entire project.

The Town purchased a new fire truck in FY2006 for \$504 thousand and has financed the purchase through temporary debt. This deficit will be eliminated in the future when long-term bonds are issued.

## ***General Fund Budgetary Highlights***

The Town has adopted an \$11.6 million dollar budget for the General Fund. The budget financed through current revenues and prior year reserves. A budget surplus of \$662 thousand was achieved for the fiscal year when the actual results are compared to the budgeted amounts.

## ***Capital Asset and Debt Administration***

Outstanding long-term debt of governmental activities, as of June 30, 2006, totaled \$1.5 million and bond anticipation notes of \$1.1 million. The Water Enterprise Fund has \$1.1 of long-term debt outstanding at year end which is fully supported by the rates.

During the fiscal year the Town acquired \$1 million in new capital assets. Significant additions were \$500 thousand for a fire truck, \$75 thousand for work on the Town Hall/Police Station project, \$190 thousand for infrastructure, \$70 thousand for a brush truck for the fire department and \$47 thousand for water assets.

As more fully discussed in the notes to the financial statements, the Town experienced significant damage to its infrastructure during record rainfall in the spring. The Town estimates the cost to repair the damage will be \$2.2 million.

The Town has elected to delay recording general infrastructure assets acquired before June 30, 2002 as allowed by GASB #34. The historical depreciated cost of these assets has not been compiled.

Please refer to the Notes for further discussion of the debt and capital activity.

### ***Requests for Information***

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director.

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# ***Basic Financial Statements***

# STATEMENT OF NET ASSETS

JUNE 30, 2006

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
CURRENT:			
Cash and short-term investments.....	\$ 2,904,169	\$ 155,014	\$ 3,059,183
Investments.....	1,074,106	-	1,074,106
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	99,023	-	99,023
Tax liens.....	22,285	-	22,285
Motor vehicle excise taxes.....	51,737	-	51,737
Water fees.....	-	145,266	145,266
Departmental and other.....	16,934	-	16,934
Intergovernmental.....	475,394	-	475,394
Tax foreclosures.....	252,989	-	252,989
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	264,384	-	264,384
Capital assets, net of accumulated depreciation.....	5,033,374	1,325,616	6,358,990
<b>TOTAL ASSETS.....</b>	<b>10,194,395</b>	<b>1,625,896</b>	<b>11,820,291</b>
<b>LIABILITIES</b>			
CURRENT:			
Warrants payable.....	68,980	4,611	73,591
Accrued payroll.....	73,547	2,080	75,627
Accrued interest.....	5,723	4,091	9,814
Other liabilities.....	594	-	594
Compensated absences.....	39,000	-	39,000
Bonds and notes payable.....	1,252,000	75,000	1,327,000
NONCURRENT:			
Compensated absences.....	46,000	21,900	67,900
Bonds and notes payable.....	1,400,000	1,000,000	2,400,000
<b>TOTAL LIABILITIES.....</b>	<b>2,885,844</b>	<b>1,107,682</b>	<b>3,993,526</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	2,381,374	250,616	2,631,990
Restricted for:			
Permanent funds:			
Expendable.....	100,442	-	100,442
Nonexpendable.....	398,118	-	398,118
Other purposes.....	764,900	-	764,900
Unrestricted.....	3,663,717	267,598	3,931,315
<b>TOTAL NET ASSETS.....</b>	<b>\$ 7,308,551</b>	<b>\$ 518,214</b>	<b>\$ 7,826,765</b>

See notes to basic financial statements.

# STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2006

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
Governmental Activities:					
General government.....	\$ 933,544	\$ 173,178	\$ 29,791	\$ -	\$ (730,575)
Public safety.....	2,179,073	184,248	181,888	-	(1,812,937)
Education.....	5,813,821	-	32,000	-	(5,781,821)
Public works.....	1,139,354	23,738	-	182,507	(933,109)
Human services.....	105,902	14,850	7,334	-	(83,718)
Culture and recreation.....	983,997	548,201	74,611	-	(361,185)
Interest.....	93,375	-	-	-	(93,375)
State and county charges.....	109,636	-	-	-	(109,636)
Total Governmental Activities.....	11,358,702	944,215	325,624	182,507	(9,906,356)
Business-Type Activities:					
Water.....	374,042	551,659	-	-	177,617
Total Primary Government.....	\$ 11,732,744	\$ 1,495,874	\$ 325,624	\$ 182,507	\$ (9,728,739)

See notes to basic financial statements.

(Continued)

# STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <b>(9,906,356)</b>	\$ <b>177,617</b>	\$ <b>(9,728,739)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	9,062,693	-	9,062,693
Motor vehicle and other excise taxes.....	616,729	-	616,729
Community preservation surcharge.....	224,179	-	224,179
Grants and contributions not restricted to specific programs.....	696,748	-	696,748
Unrestricted investment income.....	101,286	-	101,286
Miscellaneous.....	38,629	-	38,629
Total general revenues and transfers.....	10,740,264	-	10,740,264
Change in net assets.....	833,908	177,617	1,011,525
<i>Net Assets:</i>			
Beginning of year.....	6,474,643	340,597	6,815,240
End of year.....	\$ <u>7,308,551</u>	\$ <u>518,214</u>	\$ <u>7,826,765</u>

(Concluded)



**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2006

	General	Community Preservation	Town Hall and Police Station	New Fire Truck	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and short-term investments.....	\$ 1,584,885	\$ 221,794	\$ 370,771	\$ 53	\$ 726,667	\$ 2,904,170
Investments.....	-	-	-	-	1,074,106	1,074,106
Receivables, net of uncollectibles:						
Real estate and personal property taxes.....	99,023	-	-	-	-	99,023
Real estate tax deferrals.....	264,384	-	-	-	-	264,384
Tax liens.....	22,285	-	-	-	-	22,285
Motor vehicle excise taxes.....	51,737	-	-	-	-	51,737
Departmental and other.....	14,099	2,835	-	-	-	16,934
Intergovernmental.....	9,433	221,366	-	-	244,595	475,394
Tax foreclosures.....	252,989	-	-	-	-	252,989
<b>TOTAL ASSETS.....</b>	<b>\$ 2,298,835</b>	<b>\$ 445,995</b>	<b>\$ 370,771</b>	<b>\$ 53</b>	<b>\$ 2,045,368</b>	<b>\$ 5,161,022</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Warrants payable.....	\$ 66,489	\$ -	\$ -	\$ -	\$ 2,492	\$ 68,981
Accrued payroll.....	67,189	-	-	-	6,358	73,547
Other liabilities.....	542	-	-	-	52	594
Deferred revenues.....	704,555	224,201	-	-	244,595	1,173,351
Notes payable.....	-	-	550,500	505,000	71,500	1,127,000
<b>TOTAL LIABILITIES.....</b>	<b>838,775</b>	<b>224,201</b>	<b>550,500</b>	<b>505,000</b>	<b>324,997</b>	<b>2,443,473</b>
<b>FUND BALANCES:</b>						
Reserved for:						
Encumbrances and continuing appropriations.....	429,561	-	-	-	-	429,561
Perpetual permanent funds.....	-	-	-	-	398,118	398,118
Unreserved:						
Designated for subsequent year's expenditures....	249,856	-	-	-	-	249,856
Undesignated, reported in:						
General fund.....	780,643	-	-	-	-	780,643
Special revenue funds.....	-	221,794	-	-	1,073,729	1,295,523
Capital projects funds.....	-	-	(179,729)	(504,947)	148,082	(536,594)
Permanent funds.....	-	-	-	-	100,442	100,442
<b>TOTAL FUND BALANCES.....</b>	<b>1,460,060</b>	<b>221,794</b>	<b>(179,729)</b>	<b>(504,947)</b>	<b>1,720,371</b>	<b>2,717,549</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 2,298,835</b>	<b>\$ 445,995</b>	<b>\$ 370,771</b>	<b>\$ 53</b>	<b>\$ 2,045,368</b>	<b>\$ 5,161,022</b>

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

FISCAL YEAR ENDED JUNE 30, 2006

Total governmental fund balances.....	\$ 2,717,549
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	5,033,374
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	1,173,351
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(5,723)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds and notes payable.....	(1,525,000)
Compensated absences.....	<u>(85,000)</u>
Net effect of reporting long-term liabilities.....	<u>(1,610,000)</u>
Net assets of governmental activities.....	<u>\$ 7,308,551</u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2006

	General	Community Preservation	Town Hall and Police Station	New Fire Truck	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Real estate and personal property taxes, net of tax refunds.....	\$ 9,028,748	\$ -	\$ -	\$ -	\$ -	\$ 9,028,748
Motor vehicle and other excise taxes.....	593,335	-	-	-	-	593,335
Community preservation surcharge.....	-	221,344	-	-	-	221,344
Intergovernmental.....	1,050,953	-	-	-	334,017	1,384,970
Departmental and other.....	371,977	-	-	-	98,950	470,927
Contributions.....	-	-	-	-	87,302	87,302
Investment income.....	67,661	450	-	-	33,175	101,286
Miscellaneous.....	3,285	-	-	-	8,059	11,344
<b>TOTAL REVENUES.....</b>	<b>11,115,959</b>	<b>221,794</b>	<b>-</b>	<b>-</b>	<b>561,503</b>	<b>11,899,256</b>
<b>EXPENDITURES:</b>						
Current:						
General government.....	721,725	-	75,594	-	24,331	821,650
Public safety.....	1,625,278	-	-	504,947	236,501	2,366,726
Education.....	5,781,821	-	-	-	-	5,781,821
Public works.....	898,566	-	-	-	185,359	1,083,925
Human services.....	86,810	-	-	-	5,025	91,835
Culture and recreation.....	663,190	-	-	-	99,532	762,722
Pension benefits.....	330,131	-	-	-	-	330,131
Property and liability insurance.....	117,751	-	-	-	-	117,751
Employee benefits.....	470,077	-	-	-	-	470,077
State and county charges.....	109,636	-	-	-	-	109,636
Debt service:						
Principal.....	125,000	-	-	-	-	125,000
Interest.....	93,791	-	-	-	-	93,791
<b>TOTAL EXPENDITURES.....</b>	<b>11,023,776</b>	<b>-</b>	<b>75,594</b>	<b>504,947</b>	<b>550,748</b>	<b>12,155,065</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>92,183</b>	<b>221,794</b>	<b>(75,594)</b>	<b>(504,947)</b>	<b>10,755</b>	<b>(255,809)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating transfers in.....	-	-	-	-	15,000	15,000
Operating transfers out.....	(15,000)	-	-	-	-	(15,000)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(15,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,000</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>77,183</b>	<b>221,794</b>	<b>(75,594)</b>	<b>(504,947)</b>	<b>25,755</b>	<b>(255,809)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>1,382,877</b>	<b>-</b>	<b>(104,135)</b>	<b>-</b>	<b>1,694,616</b>	<b>2,973,358</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 1,460,060</b>	<b>\$ 221,794</b>	<b>\$ (179,729)</b>	<b>\$ (504,947)</b>	<b>\$ 1,720,371</b>	<b>\$ 2,717,549</b>

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds.....	\$	(255,809)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	963,261	
Depreciation expense.....	<u>(354,314)</u>	
Net effect of reporting capital assets.....		608,947

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....

		293,354
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The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Debt service principal payments.....		125,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	62,000	
Net change in accrued interest on long-term debt.....	<u>416</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		<u>62,416</u>

Change in net assets of governmental activities.....	\$	<u>833,908</u>
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See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2006

	Water Enterprise Fund
<b>ASSETS</b>	
<b>CURRENT:</b>	
Cash and short-term investments.....	\$ 155,014
Receivables, net of allowance for uncollectibles:	
Water fees.....	145,266
Total current assets.....	300,280
<b>NONCURRENT:</b>	
Capital assets, net of accumulated depreciation.....	1,325,616
Total noncurrent assets.....	1,325,616
<b>TOTAL ASSETS.....</b>	<b>1,625,896</b>
<b>LIABILITIES</b>	
<b>CURRENT:</b>	
Warrants payable.....	4,611
Accrued payroll.....	2,080
Accrued interest.....	4,091
Bonds and notes payable.....	75,000
Total current liabilities.....	85,782
<b>NONCURRENT:</b>	
Compensated absences.....	21,900
Bonds and notes payable.....	1,000,000
Total noncurrent liabilities.....	1,021,900
<b>TOTAL LIABILITIES.....</b>	<b>1,107,682</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt.....	250,616
Unrestricted.....	267,598
<b>TOTAL NET ASSETS.....</b>	<b>\$ 518,214</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2006

	Water Enterprise Fund
<u>OPERATING REVENUES:</u>	
Charges for services .....	\$ 546,988
<u>OPERATING EXPENSES:</u>	
Cost of services and administration .....	284,298
Depreciation.....	37,908
TOTAL OPERATING EXPENSES .....	322,206
OPERATING INCOME (LOSS).....	224,782
<u>NONOPERATING REVENUES (EXPENSES):</u>	
Interest expense.....	(51,836)
Other revenues.....	4,671
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(47,165)
CHANGE IN NET ASSETS.....	177,617
NET ASSETS AT BEGINNING OF YEAR.....	340,597
NET ASSETS AT END OF YEAR.....	\$ 518,214

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2006

	Water Enterprise Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Receipts from customers and users.....	\$ 523,183
Payments to vendors.....	(183,441)
Payments to employees.....	(113,162)
NET CASH FROM OPERATING ACTIVITIES.....	<u>226,580</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>	
Other revenues.....	<u>4,671</u>
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	<u>4,671</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>	
Acquisition and construction of capital assets.....	(46,524)
Principal payments on bonds and notes.....	(75,000)
Interest expense.....	(52,085)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(173,609)</u>
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	57,642
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....	<u>97,372</u>
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....	<u>\$ 155,014</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>	
Operating income (loss).....	\$ <u>224,782</u>
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation.....	37,908
Changes in assets and liabilities:	
Water fee receivable.....	(23,805)
Warrants payable.....	(18,683)
Accrued payroll.....	478
Accrued compensated absences.....	5,900
Total adjustments.....	<u>1,798</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 226,580</u>

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Town of Wenham, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**A. Reporting Entity**

The Town is a municipal corporation governed by an elected three member Board of Selectmen and an appointed Town Administrator.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. The Town has no Component Units that require inclusion in these basic financial statements.

The Town was a member of the North East Solid Waste Committee (NESWC), a joint venture with 23 communities, organized to represent its members in all matters related to solid waste disposal at a regional waste-to-energy facility located in North Andover, Massachusetts. In accordance with a depository agreement NESWC was granted control over various funds received from contractual communities. As of June 2006, 100% of the remaining debt service was redeemed and no contingent liabilities related to the debt service exists for the member communities. NESWC's ceased operations during fiscal year 2006 and distributed the residual equity balances to the respective member communities.

The Town has an agreement with the Town of Hamilton to operate a Joint Public Library under the direction of a Joint Board of Library Trustees. The Town is the administrator for all matters associated with the management of the Joint Public Library. All revenues and expenditures related to the operation of the Joint Public Library are accounted for in the Town's General Fund. Reimbursements from the Town of Hamilton for their apportioned share of expenditures are recorded as intergovernmental revenue. In fiscal year 2006 operating expenses were approximately \$602,000 of which the Town's share was approximately \$223,000 and Hamilton's share was approximately \$379,000 and reported as intergovernmental revenue.

The Town is a member of the Hamilton-Wenham Regional School District that provides educational services to both communities. This joint venture assesses each community its share of operating and debt service costs based on student population and other factors. In fiscal year 2006 Wenham's share of the operating expense was \$5,408,000 and its share of the debt service expense was \$329,000. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located at 5 School Street, Wenham, MA 01984.



## B. Government-Wide and Fund Financial Statements

### *Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

### *Fund Financial Statements*

The GASB requires separate financial statements be provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

#### *Major Fund Criteria*

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

## C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

### *Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

#### *Fund Financial Statements*

**Governmental** fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they within the fiscal year. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental fund is reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *new fire truck fund* is used to account for financial resources to be used for the acquisition of a new fire truck.

The *new police station and town hall renovation fund* is used to account for the construction costs of these capital projects.

The *community preservation fund* is used to account for the proceeds of a surcharge to real estate taxes along with a matching state grant. These funds must be spent in accordance with state law.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Trust Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

**Proprietary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Fiduciary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The Town does not report any fiduciary funds.

#### *Government-Wide and Fund Financial Statements*

For the government-wide financial statements all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

#### E. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

#### ***Real Estate, Personal Property Taxes and Tax Liens***

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate tax liens are processed after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

### ***Motor Vehicle Excise***

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

### ***Water User Fees***

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water liens are processed after year end and included as a lien on the property owner's tax bill.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

### ***Intergovernmental***

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

## **F. Inventories**

### ***Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide financial statements.

## **G. Capital Assets**

### ***Government-Wide and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, and similar items), are reported in the applicable governmental activity column of the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market

value at the date of donation. Capital assets of the governmental activities column in the government-wide financial statements do not include construction period interest.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	10-40
Buildings.....	40
Machinery and equipment.....	5-50
Infrastructure.....	10-60

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

#### *Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

#### H. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

#### *Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

#### I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

#### *Government-Wide Financial Statements*

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets.

#### *Fund Financial Statements*

Operating transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

### J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

### K. Net Assets and Fund Equity

#### *Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Permanent funds - expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds - nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Other specific purposes” represents restrictions placed on assets from outside parties.

#### *Fund Financial Statements (Fund Balances)*

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been “reserved for” the following:

“Encumbrances and continuing appropriations” represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2007 operating budget.

### L. Long-term debt

#### *Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

*Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

M. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

N. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

*Government-Wide and Proprietary Fund Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

*Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

O. Post Retirement Benefits*Government-Wide and Fund Financial Statements*

In addition to providing pension benefits, the Town provides health insurance coverage for retired employees and their survivors. The Town recognizes the cost of providing health insurance by recording its share of insurance premiums in the General Fund in the fiscal year paid. For the fiscal year ended June 30, 2006, this expenditure totaled approximately \$70,000. There were approximately 21 participants eligible to receive benefits at June 30, 2006.

P. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2006, actual expenditures did not exceed appropriations.

Q. Use of Estimates*Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

R. Total Column*Fund Financial Statements*

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

**NOTE 2 - CASH AND INVESTMENTS**

Statutes authorize the Town to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's investment pool. In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Town maintains a cash and investment pool that is available for use by all funds, except the Trust Funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Short-Term Investments". The deposits and investments of the Trust Funds are held separately from those of other Town funds.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town has not formally adopted a policy for custodial credit risk of deposits. At fiscal year-end, the carrying amount of deposits totaled \$3,059,193 and the bank balance totaled \$3,640,771. Of the bank balance, \$463,365 was covered by Federal Depository Insurance and \$3,177,406 was uninsured and uncollateralized.

Investments

The Town has a total amount of \$1,074,106 in Investments. All the investments are in Government Agency Securities.

Interest Rate Risk

The government does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The government has not adopted a formal policy related to Credit Risk. Standard & Poor's Investors Service rated the investments AAA of which \$199,970 mature within one year and \$874,136 matures between one and five years.

Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer.



**NOTE 3 – RECEIVABLES**

At June 30, 2006, receivables for the governmental funds, in the aggregate, including the applicable allowance for uncollectibles, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 99,023	\$ -	\$ 99,023
Real estate tax deferrals.....	264,384	-	264,384
Tax liens.....	22,285	-	22,285
Motor vehicle and other excise taxes.....	65,137	(13,400)	51,737
Departmental and other.....	16,934	-	16,934
Intergovernmental.....	475,394	-	475,394
Total.....	<u>\$ 943,157</u>	<u>\$ (13,400)</u>	<u>\$ 929,757</u>

At June 30, 2006, receivables for the water enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water fees.....	<u>\$ 145,266</u>	<u>\$ -</u>	<u>\$ 145,266</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

<u>Receivable and other asset type:</u>	General Fund	Other Governmental Funds	Total
Real estate and personal property taxes.....	\$ 99,061	\$ -	\$ 99,061
Real estate tax deferrals.....	264,384	-	264,384
Tax liens.....	22,285	-	22,285
Tax foreclosures.....	252,989	-	252,989
Motor vehicle and other excise taxes.....	51,737	-	51,737
Departmental and other.....	14,099	2,835	16,934
Intergovernmental.....	-	465,961	465,961
Total.....	<u>\$ 704,555</u>	<u>\$ 468,796</u>	<u>\$ 1,173,351</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 486,681	\$ -	\$ -	\$ 486,681
Construction in progress.....	307,157	75,594	(30,522)	352,229
Total capital assets not being depreciated.....	793,838	75,594	(30,522)	838,910
<u>Capital assets being depreciated:</u>				
Buildings.....	2,941,223	30,522	-	2,971,745
Machinery and equipment.....	2,955,171	702,401	(109,727)	3,547,845
Infrastructure.....	300,046	185,266	-	485,312
Total capital assets being depreciated.....	6,196,440	918,189	(109,727)	7,004,902
<u>Less accumulated depreciation for:</u>				
Buildings.....	(591,900)	(71,586)	-	(663,486)
Machinery and equipment.....	(1,957,776)	(269,638)	109,727	(2,117,687)
Infrastructure.....	(16,175)	(13,090)	-	(29,265)
Total accumulated depreciation.....	(2,565,851)	(354,314)	109,727	(2,810,438)
Total capital assets being depreciated, net.....	3,630,589	563,875	-	4,194,464
Total governmental activities capital assets, net.....	\$ 4,424,427	\$ 639,469	\$ (30,522)	\$ 5,033,374

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 17,361	\$ -	\$ -	\$ 17,361
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	633,063	46,524	-	679,587
Infrastructure.....	837,452	-	-	837,452
Total capital assets being depreciated.....	1,470,515	46,524	-	1,517,039
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	(81,759)	(21,827)	-	(103,586)
Infrastructure.....	(89,117)	(16,081)	-	(105,198)
Total accumulated depreciation.....	(170,876)	(37,908)	-	(208,784)
Total capital assets being depreciated, net.....	1,299,639	8,616	-	1,308,255
Total business-type activities capital assets, net.....	\$ 1,317,000	\$ 8,616	\$ -	\$ 1,325,616

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

General government.....	\$ 5,790
Public safety.....	99,447
Public works.....	71,926
Culture and recreation.....	177,151

Total depreciation expense - governmental activities..... \$ 354,314

**Business-Type Activities:**

Water.....	\$ 37,908
------------	-----------

The Town has elected to delay recording general infrastructure assets acquired before June 30, 2002 as allowed by GASB #34. The historical depreciated cost of these assets has not been compiled.

**NOTE 5 – INTERFUND TRANSFERS**

During the fiscal year the town transferred \$15,000 from the General Fund to the Non-Major Fund. The transfer was used to fund social programs in the Special Revenue Fund.

**NOTE 6 – SHORT-TERM FINANCING**

The Town is authorized to borrow on a temporary basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures for short-term borrowings are accounted for in the General Fund.

At June 30, 2006, the Town had the following short-term debt outstanding:

Fund/Purpose	Type	Rate %	Issue Date	Due Date	Balance at 6/30/2005	Renewed/ Issued	Retired/ Redeemed	Balance 6/30/2006
<b>Governmental Funds</b>								
Iron Rail Boiler	BAN	3.21%	6/16/2005	6/15/2006	\$ 71,500	\$ -	\$ 71,500	\$ -
Iron Rail Boiler	BAN	3.85%	6/16/2006	10/30/2006	-	71,500	-	71,500
Town Hall / Police Station	BAN	3.21%	6/16/2005	6/15/2006	50,500	-	50,500	-
Town Hall / Police Station	BAN	3.85%	6/16/2006	10/30/2006	-	550,500	-	550,500
Quint Fire Truck	BAN	3.21%	6/16/2005	6/15/2006	505,000	-	505,000	-
Quint Fire Truck	BAN	3.85%	6/16/2006	10/30/2006	-	505,000	-	505,000
<b>Total Governmental Funds.....</b>					<b>\$ 627,000</b>	<b>\$ 1,127,000</b>	<b>\$ 627,000</b>	<b>\$ 1,127,000</b>

## NOTE 7 – LONG-TERM DEBT

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the Town's outstanding indebtedness at June 30, 2006, and the debt service requirements follow.

### Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2005	Issued	Redeemed	Outstanding at June 30, 2006
Fire Truck.....	4.00 - 6.50	\$ 165,000.00	\$ -	\$ 20,000	\$ 145,000
Library.....	4.00 - 5.00	1,015,000.00	-	70,000	945,000
Lease Buyback.....	4.00 - 5.00	270,000.00	-	20,000	250,000
Town Hall/Police Station.....	4.00 - 5.00	200,000.00	-	15,000	185,000
<b>Total Governmental Debt....</b>		<b>\$ 1,650,000</b>	<b>\$ -</b>	<b>\$ 125,000</b>	<b>\$ 1,525,000</b>

Debt service requirements for principal and interest for Governmental Bonds payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007.....	\$ 125,000	\$ 68,661	\$ 193,661
2008.....	125,000	63,659	188,659
2009.....	125,000	58,661	183,661
2010.....	125,000	53,536	178,536
2011.....	125,000	48,286	173,286
2012.....	125,000	42,911	167,911
2013.....	125,000	37,288	162,288
2014.....	125,000	31,539	156,539
2015.....	100,000	25,726	125,726
2016.....	95,000	20,975	115,975
2017.....	85,000	16,415	101,415
2018.....	85,000	12,250	97,250
2019.....	80,000	8,000	88,000
2020.....	80,000	4,000	84,000
Total.....	\$ <u>1,525,000</u>	\$ <u>491,907</u>	\$ <u>2,016,907</u>

#### **Bonds and Notes Payable Schedule – Enterprise Fund**

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2006</u>
Water Tower.....	4.00 - 5.00	\$ <u>1,150,000</u>	\$ <u>-</u>	\$ <u>75,000</u>	\$ <u>1,075,000</u>

Debt service requirements for principal and interest for enterprise fund bonds and notes payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007..... \$	75,000	\$ 49,085	\$ 124,085
2008.....	75,000	46,085	121,085
2009.....	75,000	43,085	118,085
2010.....	75,000	40,010	115,010
2011.....	75,000	36,860	111,860
2012.....	75,000	33,635	108,635
2013.....	75,000	30,260	105,260
2014.....	75,000	26,810	101,810
2015.....	75,000	23,323	98,323
2016.....	80,000	19,760	99,760
2017.....	80,000	15,920	95,920
2018.....	80,000	12,000	92,000
2019.....	80,000	8,000	88,000
2020.....	80,000	4,000	84,000
Total..... \$	<u>1,075,000</u>	<u>\$ 388,833</u>	<u>\$ 1,463,833</u>

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2006, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Town Hall/Police Station.....	\$ 6,608,421
Iron Rail Boiler.....	72,000
Water Tower.....	350,000
Fire Truck.....	<u>505,000</u>
Total.....	<u>\$ 7,535,421</u>

#### General Long-Term Liabilities

The Town records its liability for long-term bonds and notes in the Government-wide financial statements. Other general long-term obligations recognized by the Town are its obligations for compensated absence benefits (sick and vacation pay). These liabilities will be liquidated in the future from Governmental Funds.

During the fiscal year ended June 30, 2006, the following changes occurred in long-term liabilities:

	Balance June 30, 2005	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2006	Current Portion
<b>Governmental Activities:</b>						
Long-Term Bonds and Notes.....	\$ 1,650,000	\$ -	\$ (125,000)	\$ -	\$ 1,525,000	\$ 125,000
Compensated Absences.....	147,000	-	-	(55,000)	92,000	39,000
Total.....	<u>\$ 1,797,000</u>	<u>\$ -</u>	<u>\$ (125,000)</u>	<u>\$ (55,000)</u>	<u>\$ 1,617,000</u>	<u>\$ 164,000</u>
<b>Business-Type Activities:</b>						
Long-Term Bonds and Notes.....	\$ 1,150,000	\$ -	\$ (75,000)	\$ -	\$ 1,075,000	\$ 75,000
Compensated Absences.....	16,000	-	-	5,900	21,900	-
Total.....	<u>\$ 1,166,000</u>	<u>\$ -</u>	<u>\$ (75,000)</u>	<u>\$ 5,900</u>	<u>\$ 1,096,900</u>	<u>\$ 75,000</u>

**NOTE 8 – PENSION PLAN**

*Plan Description* - The Town contributes to the Essex Regional Contributory Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement Board. Substantially all employees are members of the System. In the past, there were public school teachers and certain administrators who were members of the Commonwealth's Teachers Retirement System, to which the Town did not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$32,000 for the fiscal year ended June 30, 2006, and, accordingly, are reported in the General Fund as Intergovernmental Revenues and Pension Expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth during those years are borne by the Commonwealth. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth of Massachusetts Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 491 Maple Street, Danvers, Massachusetts, 01923.

*Funding Policy* - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution which is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town's contributions to the System for the fiscal years ended June 30, 2006, 2005 and 2004 totaled approximately \$296,000, \$276,000, and \$250,000 respectively, which equaled its required contribution for each fiscal year.

*Non-contributory Retirement Allowance* - The Town pays the entire retirement allowance for certain retirees who are eligible for non-contributory benefits and are not members of the System. The General Fund expenditure for fiscal year 2006 totaled approximately \$2,300.

**NOTE 9 – RISK FINANCING**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in premium-based health care plans for its employees and retirees. The Town participates in a premium-based workers' compensation insurance plan for its employees.

The amount of settlements has not exceeded the coverage in any of the last three fiscal years.

**NOTE 10 – CONTINGENCIES**

The Town participates in a number of federal award programs. These programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2006, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2006.

**NOTE 11 – COMMITMENTS**

The Town of Wenham has elected to renovate the existing town hall building and to build a new, free-standing police station. The May 6, 2006 Annual Town Meeting recently appropriated \$2,151,421 of additional construction funding to be added to previously approved project appropriations of \$4,701,000, for a total construction budget of \$6,852,421. The original project design envisioned the renovation of the town hall and construction of a new police station, but after project bids returned over budget, the project was redesigned to include the demolition of the historic town hall and the construction of a new, combined town hall and police station building. In 2005 the project failed to receive approval from the Historic District Commission and the design was brought back to town meeting for consideration of requested amendments. At the May 6, 2006 town meeting, the town voters reversed the proposed building consolidation design concept, decided to again proceed with a town hall renovation and new police station building, and then appropriated the additional funds needed to complete the project. The newly configured Town Hall & Police Station Building Committee is now in the final design process and anticipates putting the project out to bid in early September, 2006. Interior town hall demolition was begun in July and is expected to be completed by the end of August, 2006. Upon the successful award of final construction bids, the town anticipates that the building project will be complete by December, 2007.

In early May, 2006, eastern Massachusetts received record rain fall amounts over a 3-4 day period and wide spread flooding occurred throughout the greater Boston metropolitan area. The State of Massachusetts and the Town of Wenham declared states of emergency due to the overwhelming amount of private and public damage incurred. It took Wenham approximately 3 months to fully assess the extent of storm-related, infrastructure damage, which has been estimated at in excess of \$2.2 million. Due to three threatened bridge/culvert structures damaged by the spring floods, the Board of Selectmen elected to call an emergency, Special Town Meeting in September, 2006. The purpose of this meeting is to appropriate between \$1.4-\$2.2 million worth of funding for needed emergency repairs. Damage to town roadways and structures was generally concentrated in the area of the Miles River. The bridge/culvert crossings at Larch Row, Walnut Road, and Grapevine Road were designated as local emergencies and will require replacement prior to the onset of winter, 2006. Additional flood-related



roadway repairs are expected to be undertaken in the summer of 2007. The Town will be working with state and federal officials to determine if additional funding is available for this project.

## NOTE 12 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2006, the following GASB pronouncement was implemented.

The GASB issued Statement #42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, which is required to be implemented in Fiscal 2006. This pronouncement did not impact the basic financial statements.

The GASB issued Statement # 46, Net Assets Restricted by Legislation an amendment of GASB Statement No. 34. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. It requires governments to disclose the portion of total net assets that is restricted by enabling legislation. This statement is required to be implemented in FY2006. This statement did not effect the basic financial statements.

The GASB issued Statement # 47, Accounting for Termination Benefits. The Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner and is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements. This statement is required to be implemented in FY2006. This statement did not effect the basic financial statements.

### *Other Future GASB Pronouncements:*

The GASB issued Statement #43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which is required to be implemented in FY2009. Since there is no legally established separate trust for the postemployment benefit plan this pronouncement will not impact the basic financial statements.

The GASB issued Statement #45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which is required to be implemented in FY2010. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

## ***Required Supplementary Information***

GENERAL FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGETARY BASIS - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		
	Amounts Carried forward From Prior Year	Original Budget	Final Budget
<b>REVENUES:</b>			
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 9,051,808	\$ 9,051,808
Motor vehicle and other excise taxes.....	-	577,312	577,312
Intergovernmental.....	-	1,038,182	1,038,182
Departmental and other.....	-	347,748	347,748
Investment income.....	-	29,622	29,622
Miscellaneous.....	-	-	-
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>11,044,672</b>	<b>11,044,672</b>
<b>EXPENDITURES:</b>			
Current:			
General government.....	3,238	824,774	754,863
Public safety.....	6,475	1,629,148	1,663,411
Education.....	14,048	5,805,371	5,805,371
Public works.....	10,957	999,837	1,020,837
Human services.....	-	94,630	97,358
Culture and recreation.....	2,180	663,265	669,075
Pension benefits.....	-	298,373	298,373
Property and liability insurance.....	-	135,199	135,199
Employee benefits.....	-	488,939	488,939
State and county charges.....	-	109,911	109,911
Debt service:			
Principal.....	116,000	271,000	271,000
Interest.....	144,212	285,863	291,973
<b>TOTAL EXPENDITURES.....</b>	<b>297,110</b>	<b>11,606,310</b>	<b>11,606,310</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(297,110)</b>	<b>(561,638)</b>	<b>(561,638)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Other amounts to be raised.....	-	(251,734)	(251,734)
Operating transfers out.....	-	-	(15,000)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>(251,734)</b>	<b>(266,734)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(297,110)</b>	<b>(813,372)</b>	<b>(828,372)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>1,194,803</b>	<b>1,194,803</b>	<b>1,194,803</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 897,693</b>	<b>\$ 381,431</b>	<b>\$ 366,431</b>

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$	9,033,822	\$ -	\$ (17,986)
	593,335	-	16,023
	1,018,953	-	(19,229)
	371,977	-	24,229
	67,661	-	38,039
	<u>240,333</u>	<u>-</u>	<u>240,333</u>
	<u>11,326,081</u>	<u>-</u>	<u>281,409</u>
	721,725	2,001	31,137
	1,625,278	21,986	16,147
	5,781,821	22,012	1,538
	952,614	32,990	35,233
	86,810	385	10,163
	663,190	5,114	771
	298,131	-	242
	117,751	70	17,378
	470,077	-	18,862
	109,636	-	275
	125,000	146,000	-
	<u>93,791</u>	<u>197,959</u>	<u>223</u>
	<u>11,045,824</u>	<u>428,517</u>	<u>131,969</u>
	<u>280,257</u>	<u>(428,517)</u>	<u>413,378</u>
	-	-	251,734
	<u>(15,000)</u>	<u>-</u>	<u>-</u>
	<u>(15,000)</u>	<u>-</u>	<u>251,734</u>
	265,257	(428,517)	665,112
	<u>1,194,803</u>	<u>-</u>	<u>-</u>
\$	<u><u>1,460,060</u></u>	<u><u>(428,517)</u></u>	<u><u>665,112</u></u>

COMMUNITY PRESERVATION FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGETARY BASIS - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual Budgetary Amounts	Variance To Final Budget
<u>REVENUES:</u>			
Community preservation surcharge.....	\$ 221,366	\$ 221,344	\$ (22)
Investment income.....	-	450	450
TOTAL REVENUES.....	<u>221,366</u>	<u>221,794</u>	<u>428</u>
<u>EXPENDITURES:</u>			
Current:			
Community preservation expenditures.....	-	-	-
TOTAL EXPENDITURES.....	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	<u>221,366</u>	<u>221,794</u>	<u>428</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Other amounts to be raised.....	(221,366)	-	221,366
TOTAL OTHER FINANCING SOURCES (USES).....	<u>(221,366)</u>	<u>-</u>	<u>221,366</u>
NET CHANGE IN FUND BALANCE	-	221,794	221,794
BUDGETARY FUND BALANCE, Beginning of year.....	-	-	-
BUDGETARY FUND BALANCE, End of year.....	<u>\$ -</u>	<u>\$ 221,794</u>	<u>\$ 221,794</u>

See notes to required supplementary information.

**STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY****A. Budgetary Information**

Municipal Law requires the Town to adopt a balanced budget that is approved by the Finance Committee (Committee). The Committee presents an annual budget to the Open Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any individual line item, adopts the expenditure budget by majority vote. Increases or decreases subsequent to the approval of the annual budget require a vote at a Special Town Meeting.

The majority of the Town's appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote at Town Meeting.

The Town adopts an annual budget for the General Fund in conformity with the guidelines described above. The original fiscal year 2006 budget for the General Fund includes current year appropriations and other amounts to be raised of approximately \$11,561,000 and encumbrances and continuing appropriations from prior fiscal years of approximately \$297,000. During the fiscal year the Town approved subsequent appropriations of approximately \$15,000.

The Town Accountant has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the Town's accounting system.

**Budgetary - GAAP Reconciliation**

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth of Massachusetts (Commonwealth)) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary basis to GAAP basis results for the General Fund for the fiscal year ended June 30, 2006, is presented below:

	<u>General Fund</u>
Net change in fund balance - budgetary basis.....	\$ 265,257
<b><u>Basis of accounting differences:</u></b>	
Net change in recording 60-day receipts accrual.....	(11,995)
Net change in recording ATB liability.....	6,900
Net change in recording Investment in NESWC.....	<u>(183,000)</u>
Net change in fund balances - GAAP basis.....	\$ <u><u>77,162</u></u>